



State of West Virginia

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ADVISORY MEMORANDUM

DATE: November 30, 2011

TO: CPA Firms Appointed to Conduct Government Audits in the State of West Virginia

FROM: Stuart T. Stickel, Deputy State Auditor
Office of the State Auditor

RE: **ARRA (American Recovery and Reinvestment Act) Bond Issues through the State Revolving Fund**

Pursuant to statutory power conferred by West Virginia Code Section Two, Article Nine, Chapter Six, the Chief Inspector is promulgating uniform accounting guidelines related to the treatment of principal "forgivable" debt issued by local governments.

Background

- The WV Department of Environmental Protection (hereinafter DEP) and the WV Water Development Authority (hereinafter WDA) provide funding to local governments under CFDA numbers 66.458 and 66.468. This funding can be in the form of grants and/or loans and bond issuances.
- The ARRA Act of 2009 provided additional funding for these programs.
- The DEP and WDA entered into agreements with a number of local governments (See schedule A for a listing of participating local governments as of June 30, 2011) to provide financial assistance for allowable projects.
- Agreements in the form of Bond Ordinances, Resolutions and ARRA Assistance Agreements are executed in conjunction with the program. Usually, there are two separate debt issuances (A and B) related to the project with the B issue being the ARRA funded "loan".
- The ARRA Assistance agreement stipulates a long-term period (typically ten years) in which the debt is systematically forgiven. This Assistance Agreement is incorporated, after execution, into the bond legislation.
- There are no recourse provisions for the DEP or the WDA to affect payment of the ARRA portion of the debt issuance. Bond legislation states the principal amount for the Series B bonds shall be 100% forgiven as set forth in the ARRA Assistance agreement.

There have been varying opinions as to proper treatment of the debt agreement given that it is a debt instrument that has an amortization schedule. Therefore, because of the material effect on the financial statements, we presented the pertinent facts and documents to the technical staff of the Governmental Accounting Standards Board (GASB) for their interpretation. GASB determined that it would be allowable to present this portion of the bond issue as a grant rather than a debt. The determining factor is because the WDA and DEP have no recourse provisions to collect the amounts.

Because of the unique nature of the transaction, financial statement preparers should consider note disclosures in the Summary of Significant Accounting Policies and in the Detailed Notes on Funds in order to provide adequate detail. Auditors ***should not*** consider the portion of the forgiven amount per the amortization schedule when determining compliance with rate covenants. If a local government had previously issued audits that listed the ARRA forgivable loan as a liability then you should review applicable professional auditing standards to determine whether a reissuance or a prior period adjustment to the subsequent financial statements would be the most appropriate course of action.

This information will be provided to the known local governments participating in the ARRA forgivable loan program and will be posted to our website. The DEP and WDA are considering some language changes in the future governing documents to further clarify the true nature of the transaction. Furthermore, despite the cessation of ARRA funds after the 2009 appropriations, there is still an ability to issue "principal forgiveness" loans under future capitalization grants from the Environmental Protection Agency. If you have any questions please feel free to contact me.

Schedule A

ACTIVE BONDS FUNDED THROUGH THE AMERICAN RECOVERY and REINVESTMENT ACT OF 2009 ASSISTANCE AGREEMENT

Issue Date		Issue Amount	Last DS	Bond Holder
10/29/2009	Bath Water Revenue, Series B	2,193,910	2021	BPH
9/18/2009	Beckley Sewer Revenue, Series B1	396,484	2020	DEP
9/18/2009	Beckley Sewer Revenue, Series B2	296,952	2020	DEP
9/25/2009	Belle Sewer Revenue, Series B	255,500	2020	DEP
1/28/2010	Bluefield Sewer Revenue, Series B	2,883,295	2020	DEP
1/28/2010	Bridgeport Sewer Revenue, Series B	1,978,974	2020	DEP
1/22/2010	Canaan Valley PSD Sewer Revenue, Series B	1,958,455	2021	DEP
10/23/2009	Central Hampshire PSD Sewer Revenue, Series B	1,791,405	2020	DEP
1/22/2010	Central WV Regional Airport Authority Improvement Rev, Series B	1,093,787	2021	DEP
1/13/2010	Charles Town Water & Sewer Revenue, Series B (Admin Fee only)	100,000	2031	BPH
12/15/2009	Chelyan PSD Sewer Revenue, Series B	2,537,569	2020	DEP
7/8/2009	Clarksburg Sewer, Series B	1,000,000	2020	DEP
6/18/2009	Claywood Park PSD Sewer Revenue, Series B	2,397,500	2020	DEP
1/27/2010	Coons Run PSD Water Revenue, Series B	1,200,000	2021	BPH
6/18/2009	Elkins Sewer Revenue, Series B	868,030	2020	DEP
1/21/2010	Fairmont Water Revenue, Series B	4,447,618	2021	BPH
11/12/2009	Grantsville Sewer Revenue, Series B	2,200,300	2021	DEP
1/29/2010	Greater St. Albans PSD Sewer Revenue, Series B	2,807,210	2021	DEP
12/4/2009	Hamrick PSD Sewer Revenue, Series B	520,731	2020	DEP
7/21/2009	Harpers Ferry-Bolivar PSD Sewer Revenue, Series B	629,612	2020	DEP
10/23/2009	Jane Lew PSD Water Revenue, Series B	429,399	2020	BPH
5/5/2009	Kermit Sewer Revenue, Series B	1,938,388	2019	DEP
11/20/2009	Leon Sewer Revenue, Series B	1,097,917	2021	DEP
1/27/2010	Lewisburg Water Revenue, Series B	1,982,850	2020	DEP
1/29/2010	Lincoln County Commission Green Project Note, Series B	718,626	2021	DEP
4/19/2011	Lincoln County Commission Green Reserve Project Note, Series A	726,160	2021	DEP
8/26/2009	Malden PSD Sewer Revenue, Series B	6,614,965	2020	DEP
9/18/2009	Marlinton Water & Sewer Revenue, Series B	1,400,105	2020	DEP
6/18/2009	Marmet Sewer Revenue, Series B	3,940,466	2020	DEP
9/2/2009	Mason Water & Sewer Revenue, Series B	555,200	2020	DEP
1/28/2010	Morgantown Water & Sewer Revenue, Series B	81,600	2022	DEP
11/12/2009	Nitro Sewer Revenue, Series B	1,125,000	2021	DEP
10/29/2009	North Beckley PSD Sewer Revenue, Series B	2,415,521	2021	DEP
9/29/2009	Oceana Sewer Revenue, Series B	195,897	2020	DEP
9/25/2009	Pennsboro Sewer Revenue, Series B	2,801,000	2020	DEP
6/26/2009	Putnam PSD Sewer Revenue, Series B	1,050,000	2021	DEP
12/4/2009	Putnam PSD Water Revenue, Series B (Admin Fee only)	100,000	2030	BPH
1/14/2010	Salem Water Revenue, Series B	927,000	2021	BPH
12/18/2009	Scotts Run PSD Sewer Revenue, Series B	3,939,585	2021	DEP
11/22/2010	Shepherdstown Sewer Revenue, Series B	375,772	2020	DEP
11/20/2009	St Marys Water & Sewer Revenue, Series B	2,067,400	2021	DEP
1/7/2010	Sugar Creek PSD Water Revenue, Series B	396,500	2021	BPH
1/14/2010	Sun Valley PSD Water Revenue, Series B	1,773,000	2021	BPH
11/20/2009	Union PSD Sewer Revenue, Series B	1,363,613	2021	DEP
12/2/2009	Wardensville Sewer Revenue, Series B	179,782	2021	DEP
12/18/2009	Welch Water Revenue, Series B	625,000	2021	DEP
4/14/2011	White Sulphur Springs Water Revenue, Series A	4,252,750	2022	BPH
1/21/2010	Whitmer Water Revenue, Series B	2,117,573	2021	BPH
12/9/2009	Williamstown Sewer Revenue, Series B	660,000	2021	DEP
8/26/2009	Winfield Sewer Revenue, Series B	1,023,934	2021	DEP
1/28/2010	WV American Water Company Water Revenue Note, Series B	1,925,000	2021	BPH

Disclaimer

All attempts have been made to assure the accuracy of the ARRA issues. No guarantee should be assumed.